

REQUEST FOR APPROVAL OF COMMUNITIZATION AGREEMENT

Headington Oil Limited Partnership
7557 Rambler Road
Suite 1100
Dallas, TX 75231

Township 22 North, Range 59 East
Section 9: ALL
Section 16: ALL
1300.741 Acres
Richland County

State Tract(s):
Section 16: Yellowstone River Bed
Acres: 31.32; Trust: Common Schools
Section 9: Yellowstone River Bed
Acres: 56.58; Trust: Common Schools
Sections 9 & 16: Lot 4 (FWP Fishing Access)
Acres: 3.66; DFWP – General Fund

Headington Oil Limited Partnership has filed a request with the Department for the approval of a communitization agreement to communitize State owned acreage to permit development in conformity with regulations of the Montana Board of Oil and Gas Conservation Commission (BOGC).

A communitization agreement brings together small tracts sufficient for the granting of a well permit under applicable spacing rules. Communitization agreements are not formed until after a well has been drilled and proven to be productive. The communitization agreement provides for distribution of royalties and must be approved and signed by the Department to be effective. Communitization is important in the prevention of drilling of unnecessary and uneconomic wells which would result in physical and economic waste.

The Lorenz 14X-16 well, which is a horizontal Bakken formation oil well, was drilled in the SW¹/₄SW¹/₄ of Section 16. This spacing unit has a total of 1300.741 acres. The State owns a total of 91.56 acres of the 1300.741 mineral acres in the spacing unit that will be communitized. All the mineral owners in the spacing unit will share in the royalty from this well. The Communitization Agreement includes the Bakken formation in Sections 9 & 16.

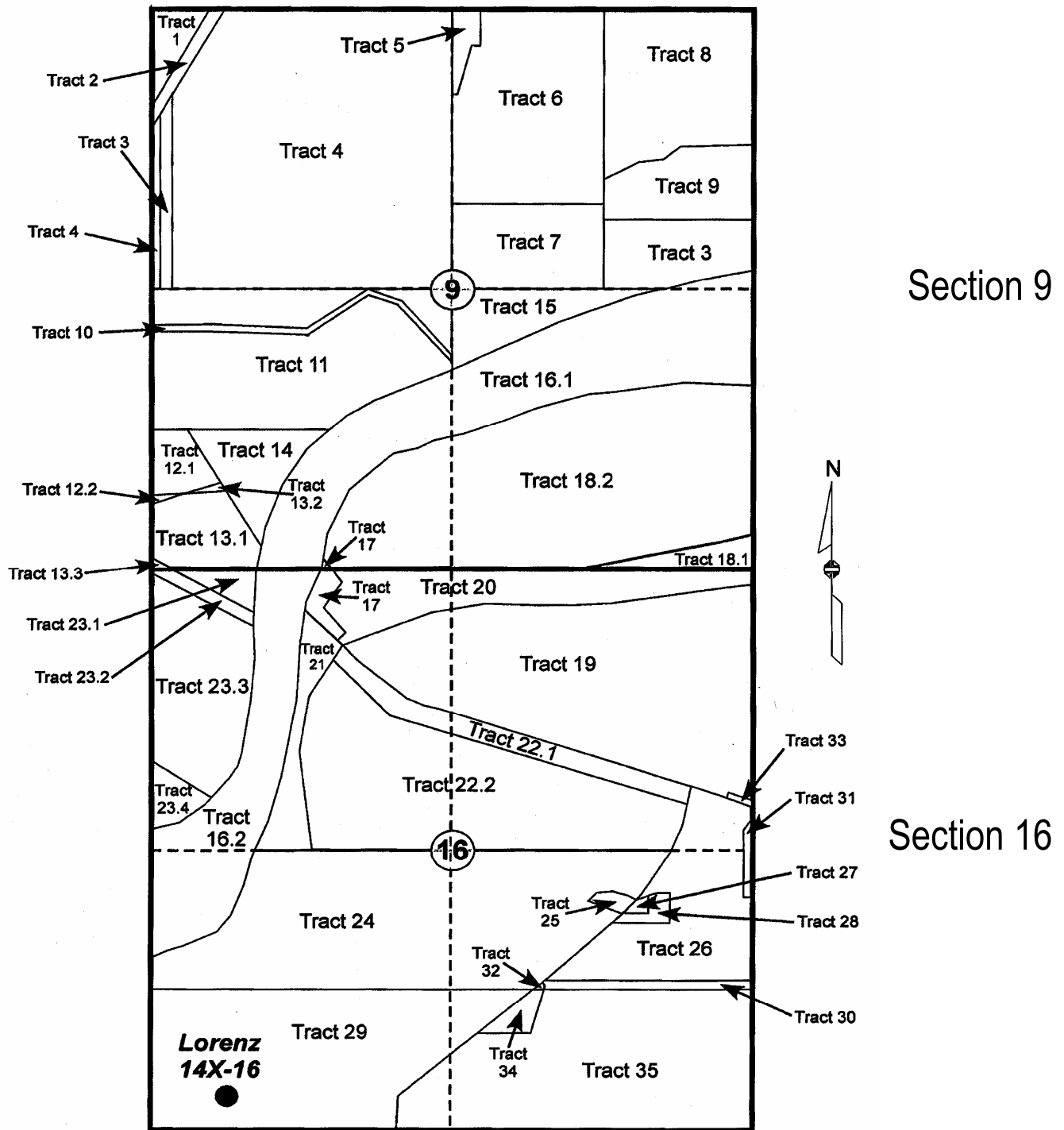
The State has 3 tracts which comprise 7.038% of the communitized area. The communitized production will be allocated to each tract based upon the relationship of its acreage to the total acreage within the communitized area. The State will consequently receive 0.57% of all oil production (13% royalty rate x 4.350% tract participation), and 0.54% of Gas production (12.5% royalty rate x 4.35% tract participation) for tract 16.1.

The State will receive 0.31% of all oil production (13% royalty rate x 2.408% tract participation), and 0.30% of Gas production (12.5% royalty rate x 2.408% tract participation) for tract 16.2.

The State will receive 0.047% of all oil and gas production (16.67% royalty rate x 0.281% tract participation), from tract 17.

The Communitization Agreement will allow the State to receive its proper share of production from the spacing unit. Therefore, the Director recommends approval of this Communitization Agreement.

Township 22 North, Range 59 East



See next page for recapitulation table

Recapitulation

Montana Oil & Gas Lease No.	Tract No.	No. of Acres Committed	% of Interest in Communitized Area	Royalty Rate	Owners Interest
OG-34956-03	16.1	56.58	4.3498%	12.50%	0.5430%
OG-34960-03	16.2	31.32	2.4079%	12.50%	0.3000%
OG-37024-06	17	3.66	0.2814%	16.67%	0.0469%
Fee Owners	1-35 *	1209.18	92.9600%		
Total	35	1300.74	100.00%		

* Less State Tracts